

FIUME

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THE question of Fiume is the most absurd but the least acute of all those arising out of the dismemberment of Hungary. It may therefore be treated here very shortly.

Like the remaining towns of the east coast of the Adriatic, Fiume appears in the oldest records as a haunt of Illyrian pirates. It was conquered by Rome about 180 B.C. and Romanized. Afterwards it formed part of Charlemagne's Empire, and was subsequently under the overlordship, at times of the Patriarchs of Aquileia, at others, of the kings of Hungary. In or about 1465 it passed to the Emperor; was captured by Venice in 1503, but recovered by the Empire in 1511. In the division of 1522 it was assigned to Inner Austria, being the southernmost point on the Austrian coast; for immediately beyond the river of Fiume (Rijeka) began the Croatian coast. During all this period Venice was the undisputed Queen of the Adriatic, and succeeded in degrading all other ports in the neighborhood to mere local importance. Early in the eighteenth century Charles VI and his councilors, particularly Prince Eugene, decided that it was essential for the Empire to possess an alternative port to Venice. It was a question of choosing not so much the best port as the least bad, for all the possible alternatives suffered under various disadvantages, with one great drawback common to all: the great difficulty of communications with the hinterland. Fiume was one of the first places considered—indeed, the Commercial Commission instituted at Graz in 1717 voted to create only one single free port, and that at Fiume, partly on account of its abundance of fresh water and the natural facilities of its harbor, partly for the curious reason that it was 'nearer to Naples'. Fiume was, however, rejected as difficult to defend when the neighboring islands were in the possession of Venice; and after Aquileia and Drago had also been considered and rejected, the lot finally fell on Trieste as the main center of Austrian trade; although Fiume was at the same time declared a Free Port and given the same privileges as Trieste.

In 1776 Maria Theresa, in response to the request of the inhabitants of Fiume themselves,¹ united Fiume with Hungary. It thus formed a tiny outlet for Hungary to the sea, between Austria on the one hand and Croatia on the other. The step was of

1. 'Damals sind sie gescheiter gewesen' said an old gentlemen to me in Fiume in 1934.

enormous advantage to Hungary, which by this means acquired a means of escaping from the crushing preferential duties imposed in Austria against Hungarian produce. Owing, however, very largely to the bad communications, and to the hostility of Trieste and Venice, the trade of Fiume remained local for nearly a hundred years, during which it formed part of Napoleon's kingdom of Ulyria from 1809 to 1814, of Austria 1814—22, of Hungary 1822—49, and of Croatia 1849—68. In the latter year the Compromise was negotiated between Hungary and Croatia, with the remarkable result that two different texts were reached. The Magyar version declares that Fiume is attached to Hungary as a *corpus separatum*, the conditions of its autonomy to be negotiated by agreement between Hungary, Croatia, and Fiume; the Croat text says simply that no agreement could be reached. The instrument was presented to the King and Emperor for signature with a Croat translation of the Magyar version pasted over the Croat text.¹

In practice the town returned to Hungary as a *corpus separatum* and no attempt was made to negotiate the conditions. Croatia, however, did not abandon her legal standpoint, and two seats were kept vacant in the Croatian Diet for the Deputies of Fiume.

During the half-century 1868—1918 Fiume made very great progress. It had been a comparatively insignificant place—the population in 1851 numbered only 12,598. The port accommodation was primitive, and there was no communication, except by road, with the hinterland. Two factors made for its very rapid development. On the one hand Hungarian policy was firmly set on creating for Hungary an outlet independent of Austria; on the other, both Austria and Hungary were driven equally, by the projectionist tariff policy adopted by Germany after 1875, to enlarge their outlets in other directions. Plans for building the railway and for enlarging the harbor were set on foot immediately after the restoration of the Hungarian Constitution in 1867; and these were constantly adapted and enlarged at great expense to the Hungarian Government, which spent very large sums on the port and on subsidizing an Hungarian steamship line (subsidies were given also, on a smaller scale, to the sailing vessels). Special facilities were offered to goods exported or imported via Fiume; for although a tariff arrangement was in force for regulating the traffic equitably between Fiume and Trieste, this could be got round by a system of rebates. In fact the trade of Fiume increased very much more rapidly than that of Trieste, whose stagnation after 1869 was specifically attributed to the rise of Fiume.² Between 1871 and 1895 the trade of Fiume increased by 460 per

1. Seton-Watson, *The Southern Slav Questions*. 82.

2. Tamaro, *Storia di Trieste* P.400

cent. (bulk) and 524 per cent. (value), while the value of the trade of Trieste rose in the same period only by 26 per cent. In addition, a considerable industry was established in Fiume, notably a petroleum refinery, a naval construction works, and the Whitehead torpedo works. Fiume became a fine city, with magnificent public buildings, spacious streets and squares, a capacious harbor and storehouses, railway sidings, &c., on a lavish scale.

It must be pointed out that the rise of Fiume was not at the expense of Trieste alone, but also at that of the Croatian ports. The railways of Croatia, like those of Hungary proper, were controlled from Budapest, and were so planned that the only important railway line of Croatia was that leading from Zagreb via Ogulin to Fiume (a second line connected Fiume with Trieste via St. Peter am Karst), while the Croatian ports were without any railway communication whatever, and Dalmatia (under Austrian rule) possessed only a single narrow-gauge railway. Thus almost the whole maritime traffic of Hungary necessarily passed through Fiume, which was as important for Croatia as it was for Hungary proper.

The political question was always very important. When Hungary took Fiume over in 1868 it was almost entirely a Croat city; of the 12,599 inhabitants in 1851 11,908 had been Slavs and 691 Italians. The population increased rapidly; in 1880 it was 20,981, in 1900 38,855, and in 1910 48,492. There was, of course, a certain influx of Magyars, whose numbers rose from 367 in 1881 to 6,493 in 1910—most of this increase being due to immigration of officials and of Magyarized Jewish merchants, although Magyarization may account for some small part of it. There was also a small population of German and other nationalities. The great feature was, however, the steady rise of the ~ Italian element at the expense of the Croatian. The Croats, of course, inhabit the hinterland in solid masses, and even in the industrial suburb of Susak they continued to form some 85 per cent of the population. Nevertheless, in Fiume, according to the census figures, they already constituted only 36 per cent. of the population in 1880 and in 1900 actually only 18 per cent., although: by 1910 the figure had risen again to 25 per cent. (12,926). The Italians were estimated at 17,377 in 1900, and 24,212, or almost exactly 50 per cent. of the total, in 1910.

This remarkable change was due to the deliberate policy of Hungary, which saw no danger in the Italian element, but a great danger in the Croat, and therefore encouraged the former by every means at the expense of the latter. Italians were induced to immigrate from the neighboring provinces, and were naturalized. The administration was Italianized, and all signs, posters, and

inscriptions ordered to be written in Italian. Croat, on the other hand, was practically proscribed. In 1910 the 6,000 Magyars had 6 secondary schools, 2 burger schools, a professional schools, 2 elementary schools, and a kindergartens; the 24,000 Italians had z secondary school, 2 burger schools, 2 professional schools, 12 elementary schools, and 9 kindergartens, while the 13,000 Slays had no schools whatever.

The decrease in the Croat and increase in the Italian element was not due to immigration alone. For centuries prior to the modern age Italian was the language of urban life, of trade, and of polite society along both shores of the Adriatic. Many a Slav, on rising in the world, adopted Italian manners and speech, and eleven Italianized his name. The greatest exponents of the Italianita of Fiume, as of Trieste, have been and are to-day men of Croat origin. Incidentally, most of the Croats of the coast are probably, by racial origin, Illyrians, whose ancestors were first Romanced, then Slavized. The distinction between the two nationalities is not easy to draw. In 1921 the leader of the Italian nationalist party bore the purely Slavonic name of Bellasich, while the Autonomist leader (who after his defeat took refuge in Yugoslav territory) was named Zanella.

For many decades the Magyar and Italian elements worked hand in hand, making common cause against the Croats. Only in the last fifteen years or so before the War was an attempt made to Magyarize the city. Pressure was placed on parents to send their children to Magyar schools, a knowledge of Magyar was required from officials, &c. The efforts were not very whole-hearted, and their intensity varied greatly according to the personality of the governor. In this period, however, a certain Italian irredentist movement grew up, although it was not strong, and was confined to the younger and more extreme elements. Politically, in 1914, the Italian irredentist movement had gained hold of perhaps 15 per cent. of the population. There was perhaps an equally strong Croatian or Yugoslav irredentism, while most of the population, including practically all the commercial classes, knew well where their interests lay: in the development of Fiume as an Hungarian port. It must be emphasized that the rise of Fiume was due to the special care of the Hungarian Government. Left to compete on equal terms with Trieste, Fiume could not have flourished as it did; while the city had not yet quite forgotten what it suffered from Venice in, the days of her glory.

The attribution of Fiume to Italy after the War was the result of one of the strangest sequences of events which even 1919 witnessed, but those events are too well known to require retelling in detail here. It may be recalled that in the Treaty of

London (May 4th, 1915) Italy did not claim Fiume, which was intended to be the port of Croatia. Under the same Treaty, however, Italy was due to receive Dalmatia. At the Peace Conference Wilson refused to recognize the Treaty of London as binding on himself, and proposed to give Dalmatia to Yugoslavia, leaving Flume an international port within the Yugoslav customs régime. Italy stuck to her demand for Dalmatia, and Orlando now claimed Fiume also. It was over this question that the Italian Delegation left the Conference. Meanwhile, the authorities of the new Serb-Croat-Slovene State had taken up the standpoint that in consequence of the severance of Croatia from Hungary, Fiume had reverted to the *status quo ante* 1868 and become part of Croatia. Croatian officials took charge of the administration, and Serbian troops occupied the town on November 15th. They were persuaded to withdraw on an assurance that no foreign troops would enter Fiume for three days; in spite of which assurance, Italian troops promptly disembarked, and the administration was taken over by Italians. Some French and British troops arrived afterwards, but the Italians were always in charge. While the Big Four in Paris were evolving a scheme for making Fiume into an independent, demilitarized buffer state, d'Annunzio made his famous coup on September 12th, 1919, establishing himself as 'dictator'. Thereafter, the Italian de facto occupant could never be dislodged, and year after year of confused and miserable negotiation went on until, in January 1924, the arrangement now in force was reached, under which Fiume went to Italy in absolute possession, with a strip of territory to the west which gave it territorial continuity with Italy, placing the railway to St. Peter—Trieste in its entirety in Italian territory, while Yugoslavia received the suburb of Susak, with Port Baros and the Delta, and the railway to the hinterland. Yugoslavia also leased for fifty years, without rights of extraterritoriality, one of the three basins in the main harbor of Flume, with the adjoining quays and warehouses.

Of all the settlements made at the end of the War, few equal and none, probably, surpass that of Fiume in utter futility. Fiume is totally useless to Italy, the only benefit which she derives from possession of it being the feeling that she is thereby annoying and embarrassing Yugoslavia. It is true that the citizens of Trieste, who are now also Italians, and even those of Venice, benefit from the ruin of their rival. It is a fairly open secret that d'Annunzio's escapade was largely financed from those two cities, with no other purpose than to compass the commercial destruction of Fiume. Fiume is, on the other hand, of great importance for Yugoslavia. She has, indeed, extended her railway down to

Sebenico at great cost, but although it has developed considerably, neither Sebenico nor any other Croat or Dalmatian port is, or can be for many years yet, a serious commercial rival to Fiume. Hungary is, in a way, the greatest sufferer of all, since her access to her old port now depends entirely on the sufferance of Yugoslavia, both railways to Fiume running across Yugoslav territory; but this would have been the case even had Fiume been awarded to Yugoslavia, or made a free port.

During the years immediately after the War, and particularly during the period of d'Annunzio's escapade, traffic through Flume and Susak alike practically stopped. Both places became like dead cities. Since that date the picture has changed. The commercial agreements made at the time of the settlement have worked fairly well, and traffic is revived. Inevitably, however, the traffic of Susak, with its thoroughly bad and inconvenient harbor—which has been somewhat enlarged, but the new quays can only be used during half the year—has grown, while that of Flume proper has diminished heavily. Exact comparative figures are difficult to obtain from the Italian authorities, for reasons of policy, and from the Yugoslavs for reasons of slackness; but the following figures give some indication of the position:

1913 (Fiume and Susak)		Tons
Import		
By rail		1,314,780
By sea		<u>922,960</u>
		2,237,740
Export		
By rail		625,877
By sea		<u>1,173,883</u>
		1,799,760

The corresponding figures for Trieste are as follows:

	<i>1913</i>	<i>1930</i>	<i>1931</i>	<i>1932</i>	<i>1933</i>
<i>Import</i>	1,488,210	1,081,774	753,845	513,372	538,672
By rail	<u>2,314,018</u>	<u>1,539,855</u>	<u>1,762,641</u>	<u>1,583,933</u>	<u>1,322,580</u>
By sea	3,802,228	2,621,629	2,516,486	2,097,305	1,861,252
<i>Export</i>					
By rail	1,209,336	970,421	<i>1,136,060</i>	825,148	678,774
By sea	1,135,712	737,831	<i>607,873</i>	488,678	479,298
	<u>2,345,048</u>	<u>1,708,272</u>	<u>1,743,933</u>	<u>1,313,826</u>	<u>1,158,072</u>

It will be seen that Fiume and Susak together have done rather better, by comparison with their pre-War record, than Trieste. This is, of course, only a proof of the necessity of Fiume for its

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hinterland, not of the advantage of giving Fiume to Italy; particularly since Yugoslavia is still the heaviest importer via Fiume.

To keep Fiume alive the Italian Government has made heavy sacrifices. Imports of all goods, except state monopolies, can be imported into Fiume free of all duty, if for local consumption.¹ Life in Fiume is thus exceptionally cheap, while the town also makes a considerable income by smuggling, as although the Customs officials in Istria are extremely alert, the nature of the ground is such that an active man can easily avoid the cordon. This concession costs the Italian Government over 30 million lire a year. Other subsidies also have been received from the Government. The petrol refining industry is still fairly prosperous, the crude oil being imported from Austria and refined in Fiume. The remaining industry appears to be stagnant, and unemployment is considerable. The figures for 1927, 1928, and 1929 (i.e. before the slump) were 1,806, 2,677, and 2,669 respectively.

The various raids, demonstrations, &c., of the post-War period were proclaimed as proof of the irrepressible longing of the population of Fiume to belong to Italy. In point of fact, in the only elections held under approximately free conditions (those of April 24th, 1921) the Italian Nationalists were heavily defeated by the Autonomists, who wished to preserve Fiume as a free city in the closest possible connection with the hinterland. It is true that the population of Fiume has changed markedly since the War, and is now overwhelmingly Italian or Italianate. This is due less to immigration by Italians—although this has occurred, some rentiers being tempted by the low cost of living—than to the emigration of other elements. The population actually decreased by 8 per cent. between 1910 and 1924 (although it has since risen again slightly), partly owing to the repatriation of Hungarian officials, partly to the emigration of Croats owing to the disturbances and the difficult economic situation. Many of these Croats settled in Susak. Those who remained appear to have settled down, and I am informed that although the newspapers of Fiume and Susak indulge in mutual invective, the populations are peaceable enough. The frontier is not closed, and there are persons who cross it regularly daily or oftener, although in each case they have to present documents and get them stamped. Normally few difficulties are made, the chief trouble arising out of the desire of housewives in Fiume to take advantage of the still lower cost of living in Susak.

1. A similar concession has been made to Zara, where even the Government monopolies are duty-free.

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FIUME

HUNGARY

§ I. INTRODUCTION

ON tuning to Hungary, we may pass over many of the questions which occupied us in the cases of her neighbors and successors. During the disturbed and altogether abnormal years which followed the War there were possibly certain tendencies, among some elements of the population, to prefer the supposed democratic atmosphere of the Successor States to the Red and White Terrors in Hungary; but all this is over now. There is practically no separatist feeling within Hungary to-day, among any local class of the Magyars, and, as we said before, little disagreement on the desirability of revision in Hungary's favor. The only political question which requires at all detailed consideration is, therefore, Hungary's present policy towards the minorities which the Treaty of Trianon left within her frontiers; and even that is important less for its present effects on the minorities themselves than for its bearing on the question of possible revision in the future.

§ 2. NATIONALITY POLICY

Hungary's nationality policy soon recovered from the temporary aberrations into which it had been led under Károlyi and Jászi. Those efforts to undo the work of nearly a century had, of course, come far too late. It had proved impossible even to begin negotiations with the Serbs and the Romanians; the Slovaks were *de facto* united with the Czechs long before their statute was issued, the Ruthenes followed soon after, and the German autonomy remained a mere torso, which vanished almost unnoticed after the breakdown of the Commune and the re-introduction of the old order.

For a little while thereafter the Ministry of Nationalities was maintained under Professor Bleyer, whom we have mentioned as leader of the more moderate wing of those Hungarian Germans who had retained any national feelings whatever. The Ministry even produced, on January 7th, 1920, a new Draft Statute of Autonomy for Slovakia, which is of considerable historical interest as showing 'what concessions even the Hungary of the Restoration was prepared to make to preserve the allegiance of the Slovaks. Although an ingeniously argued accompanying report made it appear as though the ideas of the revolutionary period had been

wholly abandoned, yet in fact the cardinal principle of 'national' representation was ceded, and the degree of autonomy projected I was very considerable.¹

Bleyer also drafted a new Nationalities Law, which also appeared on August 21st, 1919, as a Government Decree (M. 4044/M.E.). This gave the minorities the right to use their

1. The report and the draft itself are reprinted in *Nation und Staat*, July 1929, pp. 703—7. Both are highly interesting. The report admits the existence of certain past grievances which must be remedied, notably the enforced use of the Magyar languages in schools and administration. The Slovaks must be given enough autonomy to content them, and in view of past events this must go beyond the Nationalities Law of 1868 (it is stated, incidentally, that the draft is the outcome of negotiations with the Slovak leaders and represents the minimum which they will accept). On the other hand, the national unity of Hungary must not be endangered, particularly as the Slovak Statute will form a precedent for the other nationalities. Jászi's ideas are repudiated as, 'dangerous'; an 'Eastern Switzerland' and a federal republic are alike unacceptable, and the danger must under all circumstances be averted of allowing a number of *corpora separata* to grow up around the periphery of Hungary. The report claims of its own proposals that they escape this danger, merely adapting to national conditions the local autonomy traditional to Hungary. The competence of 'Slovensko' will be no greater than that of any other local area (at that time plans were on foot for a far-reaching administrative decentralization of Hungary).

The preamble to the draft Statute describes it as an agreement between the Hungarian State and the Slovak nation with the purpose of giving the latter unlimited possibilities of cultural development, self-government in all questions not touching the direct interest of the country as a whole, and due consideration: for its economic needs. In matters not falling within the scope of the autonomy, proper consideration is to be paid to the special position of 'Slovensko' and the predominantly Slovak character of its population.

The territory of 'Slovensko' consists of the preponderantly Slovak areas of North Hungary. The autonomy applies to education, the Church, and social welfare (local institutions). Magyar must, however, be taught in all secondary schools, and Hungarian history and literature must be taught in Magyar. The minorities living together in 'considerable numbers' must receive instruction in their own mother tongue, but also learn Slovak. The language of administration and justice is Slovak, again with safeguards for the minorities, and the administration is responsible to the Slovak Government, but is to be decentralized as far as possible. Slovensko coven the costs of its own autonomous institutions, the State contributing in the same proportion as it does to the corresponding institutions in other parts of the country. There is a National Assembly, in which the minorities are represented, which has full power to legislate in all questions in which Slovensko is autonomous, subject only to the veto of the Central Government where its decisions conflict with laws of the State. There is a local Government, under a Governor elected by the Assembly, but a State official is appointed to control the working of the Government and co-ordinate the work of the autonomous and the State authorities. Slovensko is to have its due representation in the central Parliament; its own regiments and gendarmerie formations, its sub-directorates for post, telegraphs, and railways, and the personnel of the State railway and postal employees serving in Slovensko is to be recruited as far as possible from local nationalities. A Slovak Minister belongs to the Hungarian Government. He has to 'defend the local autonomy of Slovensko' and the national rights of the Slovaks living as minorities elsewhere in Hungary. He controls the execution of the Slovak autonomy and his approval is necessary for all Governmental dispositions touching the autonomous rights of Slovensko, or the national rights of Slovaks elsewhere, including the appointment of State officials inside Slovensko. Complaints regarding infringements of the above law are brought before a neutral Supreme Court; and the rights of Slovensko are also guaranteed in the Coronation Diploma.

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other tongue freely, even in the Hungarian Parliament. Any person was entitled to approach the legislative authorities, ministries, municipalities, communes, and all other instances in his town mother tongue and to receive an answer in the same language. Executive enactments were issued by the Ministries of the Interior, Education, Justice, and Commerce, and on December 13th, 1919, the Education Act was issued which provided that linguistic 'minorities should receive instruction in their own languages in all subjects if they could not speak Magyar, or if they understood Magyar, at least in religion, reading, writing, arithmetic, and certain other subjects. Where the numbers did not suffice for a school, a minority might have parallel classes or if the numbers were smaller still then some hours' instruction weekly in the mother tongue. Magyar was to be taught as a subject from the third year onward.

But the Slovak draft, of course, proved no more successful than any of its predecessors in its real and only object of buying the adherence of the nationalities to Hungary. The Treaty of Trianon inexorably lopped off from Hungary all the non-Magyar populations which could on any pretext be detached from it, leaving a central core which was nearly 90 per cent Magyar speaking.¹

In these circumstances it seemed useless to continue a policy which had only been adopted with one purpose in view, and had signally failed to achieve it. More than this: Magyar opinion, conscious and unconscious, underwent a violent and perhaps a natural reaction to the old ideas and practices. It felt that concessions to the nationalities were not only futile but wrong in principle. Had not 1918 proved that the lessons drawn by Hungary after 1848 had been correct? If the nationalities had only been Magyarized they would never have been lost. The fault had thus lain, not in too much Magyarization, but in too little.

1. The 1920 census gave the population of Hungary as follows:

<i>Habitual language.</i>	<i>Number.</i>	<i>Per cent.</i>	<i>Of these, of Jewish religion.</i>
Magyar	7,147,053	89.6	450,526
German	551,211	6.9	19,018
Slovak.	141,882	1.8	734
Romanian.	23,760	0.3	142
Ruthene.	1,500	0.0	33
Croat	36,858	0.5	292
Serb.	17,131	0.2	25
Others.	60,748	0.7	2,444
	7,980,143	100.00	473,214

The others included something over 23,000 Šokci, Bunyevci, &c., and over 6,000 Gypsies.

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Voices were raised solemnly accusing past generations of slackness in their supreme national task.

At all events, there should be no repetition of the mistake. Even if it might be admitted that pre-War Hungary was incapable of Magyarizing the nationalities when they formed half the total population, at least the few remaining fragments could be absorbed once and for all. Trianon Hungary might be a poor thing, but I it should be the Magyars' own.

Under the influence of these ideas, the Ministry of Nationalities: was soon dissolved. The Minister of the Interior appointed three: Commissaries, for the Germans, Slovaks, and Romanian respectively, but their activities, never very great, soon became almost imperceptible)

The new Nationalities Law and Education Act were never put: into force, and the whole question remained unregulated until 1923, when two new orders appeared (Nos. 4800/1923 and 110478/ 1923). As regards the use of languages in justice and administration, &c., these measures re-enact, without important modification, the Hungarian Law of 1868, and thus resemble closely the Czechoslovak law, which is based on the same instrument. The official language of the State is Magyar. In the Commune, member of linguistic minorities can address the local officials orally in their mother tongue, and must be answered in the same language; and communal officials in minority districts must speak the local minority language. The Communal Council chooses its own language of business, minutes are kept in Magyar and also in the language of a 20 per cent minority. Communications from Minority Communes to their own higher local authorities (County, &c.), or to the central authorities, may be in the minority language, but a translation in Magyar must be attached. In Municipal and County Councils any person may use his own language; minutes may be kept in a minority language also if 20 percent of the members desire.

Free use of minority languages in private intercourse is guaranteed. As regards schools, the law provided that (a) in any commune containing an overwhelming proportion of the members of one linguistic minority the school committee and village council might, on the representations of the parents, decide to introduce, or in a mixed commune, the parents or guardians of at least forty children belonging to one minority might ask for minority in-

1. The Romanian Commissioner died and was not replaced; the German resigned after a dispute with Professor Bleyer and was again not replaced. Their work has been taken over by rapporteurs attached to the Minorities Section of the Prime Minister's Office. The Slovak is 'still functioning within the limits imposed by decent reticence.

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struction according to any one of the following three types, between which they were in theory free to choose:

- A type: Instruction in the mother tongue, Magyar being taught as a subject;
- B type: Instruction in the mother tongue in natural history, physics, chemistry, economics, drawing, and handicrafts; in the mother tongue and Magyar, in 'talking and thinking', reading, writing, arithmetic, and singing; and in Magyar in geography, history, civics, and physical culture;
- C type: Instruction in Magyar, the minority language being taught as a subject; reading and writing in both languages.

No restriction was placed on the maintenance of schools by churches, associations, private persons, &c. Under these Act the Germans possessed in 1928 forty-nine 'A' schools (nearly all of them in the Western districts, and survivals of the work of the Ministry of Nationalities), 98 'B' and 316 'C.' The Slovaks had about 50 'B' and 'C' schools, the Romanians (1931—2) ii.

In the summer of 1924 the German minority received permission to found a cultural association in Budapest, the 'Ungarländisch-Deutscher Volksbildungsverein', which became the center and in a certain sense the representative body of the German minority. The Hungarian Government permitted and even supported it financially; on the other hand, it kept a control over its activities; the President had to be appointed by agreement with the Government, which also nominated half the members of the Executive Committee.

The Association, although far less vigorous than its counterpart in Romania, was able to develop a certain activity. In the course of the next five or six years it founded 175 local groups in certain parts of the country. It also issued a weekly paper, the *Sonntagsblatt*, which represented the political views of its leaders. The Slovaks possess only a purely cultural association, which issues a weekly paper in Slovak, a sort of blend of a parish magazine and Home Chat. The Serbs still own a religious foundation, the Thökölianum, which gives scholarships to Serb youths. None of the minorities possesses any separate economic organization.

The position had thus returned substantially to what it was before the War, except only that the Germans were the better off by their 'A' schools and by the foundation of the U.D.V. Even counting these, however, the separate national-cultural facilities afforded to the minorities in Hungary were probably less than those granted to the nationalities in any Successor State, Yugoslavia

1. *Die Nationalitäten in den Staaten Europas*, p. 333.

not excepted. Of all the minority schools, only the German 'A' schools really deserved the name. The 'B' schools might pass at a pinch; but the 'C' schools (which, as we saw, far outnumbered the 'A' or 'B' type for some years) were 'minority' only by courtesy, and there were many non-Magyar communes in which not even a 'C' school was allowed to exist. It is true that the parents were in theory free to choose what type of school they would have for their children, but the 'parents' conferences' which had to make the choice were notoriously subjected to the strongest pressure from the local authorities and priests, who treated a vote for an 'A' school as tantamount to treason, and for a 'B' school as little better. The Catholic priests, indeed (and nearly all the German minority, as well as the Croats, Šokci, &c., are Catholics), proved more chauvinistic even than the lay officials and often made it impossible for minority children to receive even religious instruction in their own tongue. There was no secondary education whatever, not to speak of higher education, in any non-Magyar 2 language; not even a Teachers' Training College for the Germans.¹

The headquarters of the U.D.V. were under constant surveillance; its emissaries were closely watched when they visited the provinces. They were not allowed to penetrate at all into certain districts where it was believed that the population had already been Magyarized (though not securely); and in others, they 'were in constant danger of expulsion, if not arrest, and their activities so hedged about that in one place—to give an example—a lecture in German on the utilization of milk, which one of them had proposed to give to the local milk co-operative, was actually for-bidden by the local authorities.'² As for any separate political activity on a national basis, this was simply out of the question. There were Magyar political parties in Czechoslovakia and in Romania and, for a time, in Yugoslavia, but there was, and is no German party in Hungary. In other respects, too, the pressure on the minorities to denationalize was exceedingly strong.. The practice of Magyarizing surnames continued unabated. A national society for that purpose was founded, its patrons, including the Habsburg Archduke Joseph, the Cardinal-Archbishop Serédi (who has himself practiced what he preaches), three Protestant Bishops, and the Director-General of Posts. Its aim was announced in 1931 to be the Magyarization of 60.000-70.000 names

1. Since 1927 there have, however, been courses in training colleges for students preparing for minority schools (8 for Germany, and each for Croats and Slovaks). There are also summer courses for teachers actually employed in minority schools. As regards the position of German secondary and higher education, it is important to remember that German language and literature are taught regularly as subjects in all Hungarian secondary schools and universities.

2. *Nation und Staat*, February 1932, p. 332.

'Damals sind sie gescheiter gewesen', said an old gentlemen to me in Fiumein 1934.

in a year, and the President of the Hungarian Railways and M. Gömbös, then Honvéd (Defence) Minister, the later Minister President, were singled out for especial praise as 'seeing to it that the officials, officers and other persons subordinate to them Magyarize their names.'¹ In 1933, by which time the movement had grown more active still, the goal aimed at was no less than 100,000 names a year, a figure which was, indeed, fantastically out of proportion to what was achieved or even what was seriously attempted. It was reported that the process was almost complete with the gendarmerie. The Minister of the Interior had requested the Burgomaster of Budapest to draw the attention of his employees to the desirability of falling into line, the Director of the State Railways had given his employees a certain date by which to reply whether they would change their names. In other Ministries and in many of the Counties and Municipalities similar instructions and inquiries were taking place. The whole campaign amounted to a hardly disguised compulsion exercised upon public employees. The Supreme Court of Justice, to which the question was taken on one occasion, decided, indeed, in favor of the person defending his right to his original name, but this had little effect on the action of the subordinate officials, or on that section of the general public opinion which branded those who refused to submit to the pressure as 'unpatriotic'.

It is true that not all Magyars approve of the Magyarization of names. Many laugh at it, some actively dislike it. Moreover, even where members of minorities have defied her wishes, Hungary has honorably abstained from certain practices all too common among her neighbors. By common consent, no discrimination is practiced against the most stubborn member of a minority in such matters as taxation or civil (as distinct from political) justice. Even in political questions, although the repression is severe, it is orderly and unaccompanied by extra-legal excesses.

Finally, Hungary has been consistent. If she has pressed her minorities, like no other Central European State, to abandon their nationality, she has also offered them every legitimate inducement to do so. Quick to punish, she is equally generous to reward. Once a German, Slovak, or Croat accepts the Magyar national ideal, every door is open to him. He may rise to the highest position in State or Church and none will cast his non-Magyar origin in his teeth, nor ask what name he bore before he doubled its length and put a -y at the end of it. And with reason, for if such inquiries once began, who knows where they would end? A list of the ancestral family names of Hungary's leading men and women would prove startling reading indeed.

1. *Nation und Staat*, June 1931, pp. 108—9.

'Damals sind sie gescheiter gewesen', said an old gentlemen to me in Fiumein 1934.

It must be emphasized that this attitude can have very great advantages for the minorities themselves. For the man who does not put his special national feeling above all other considerations, Hungary is the best country to live in of all the Successor States. And there are very many such, just as there are in the British Isles millions of persons of Irish, Scottish, or Welsh origin who have no desire whatever to spend their lives dozing in a Celtic twilight.

The question how far pressure to assimilate, such as is practiced in Hungary, is preferable, from the minority point of view, to the discrimination which is commoner in some other States depends almost entirely on the outlook and the ambitions of the minorities themselves. And it is fair to recall that those minorities left to Hungary by the Treaty were, with a very few exceptions in outlying frontier districts, precisely those which in pre-War Hungary had welcomed the opportunities given them to merge themselves in the larger national life. It was thus perfectly well arguable that the laws and practices mentioned above were suited both to the needs and to the wishes of the minorities themselves. This could also be deduced from the character and attitude of the two men who were the acknowledged leaders of the German minority. Dr. Gustav Gratz, although he freely admitted, and where necessary emphasized, his German origin, was perhaps already more of a Magyar than a German. A conspicuous example of the lack of prejudice with which the Magyars have always welcomed adherents to their national cause, he had at one time actually been his country's Foreign Minister. He acted less as a German leader than as a mediator between the Germans and the Magyars.

Professor Bleyer, the real leader of the people, was more 'nationalbewusst', but he was of quite unimpeachable Hungarian patriotism. He had invariably defended Hungary's interests, to the extent of opposing the cession of the Burgenland, and of rejecting on principle the idea of an appeal to the League. His conception of the needs of the German minority was so modest that he regarded the growth of a German 'intelligentsia' in Hungary as detrimental to the national interests. He was against cultural autonomy for the Germans, and even disliked the 'A' schools, as going too far towards separatism.

Gratz and Bleyer between them managed for some years to maintain at least an outward appearance of harmony between the Magyars and their most important minority. Unhappily, Bleyer's endurance was at last exhausted by the pressure on the U.D.V. combined with the inadequacy of the minority schools, and, above all, the refusal of local authorities to carry out the existing laws (which, he always maintained, were liberal enough in theory).

For years he negotiated for greater liberty for the Verein, and for the transformation of the 'C' schools into 'B'. In 1927 Count Bethlen promised him that the T.J.D.V. should receive certain concessions, and that the 'C' schools should be turned into 'B' schools in the course of four or five years, being retained only in villages where there were too few children for parallel classes. While refusing Bleyer's request that the type of school should be decided on the basis of the census, not of the parents' decision, he offered that the school authorities should be advised to consult the parents again where the census returns suggested that the maintenance of a 'C' school was not justified. But further years went by; Count Bethlen left office; Count Károlyi came and went; General Gömbös arrived; and beyond the transformation of some of the schools¹ nothing was changed. Meanwhile, the resentment of the nationalist minorities, and of their cousins across the frontiers, was enhanced by the publication of the preliminary figures of the 1930 census, which showed that the German population of Hungary had sunk to 479,000, the Slovak to 104,000, the Croat to 28,000, the Romanian to 16,000, the Serb to 7,000, the 'miscellaneous Yugoslavs' to 21,000, &c. At last Professor Bleyer decided to act, and during the Budget debate (the recognized occasion for the airing of grievances) of 1933 he made an exceedingly loyal and correct speech, setting forth the wishes of the German minority and asking for redress.

The result was an amazing outburst of fury on the part of the Magyar chauvinist Press and opinion. The best thing said in any quarter was that the speech was 'ill timed'; concessions had been 'just going to follow'. More generally, Bleyer was accused of being a 'Pan-German intriguer', a 'traitor', and many still less reputable things; his wife as well as himself was insulted; he had to fight a duel; and soon after died of something very like a broken heart.

The 'affaire Bleyer' proved, unhappily, a turning point in the relations between Hungary and her German minority. The resentment was not on one side only. A large number of the Germans, including most of the younger generation, felt exceedingly bitter. For many of them, Bleyer himself had long been too moderate. They had disagreed with his condemnation of the 'A' schools and with his rejection of a German intelligentsia; they had thought him too complaisant in the face of many minor grievances. In view, however, of the great authority which he enjoyed, they had accepted his leadership. But if Hungary was to show herself so violently intolerant even towards a man so moderate, so deeply

1. In 1933 the figures for German schools were 40 'A' type, 191 'B', and 263 'C' with 90 kindergartens, (Pester Lloyd, June 6th 1933.)

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patriotic as Bleyer, then it seemed that every possibility of compromise had gone. Hungary, it appeared, would be content with nothing less than complete, resistless Magyarization, and that they could no longer accept. Like all the younger Germans throughout Central and Eastern Europe, they were strongly influenced by the new national feeling. They were impregnated, as the generation of 1914 had never been, with the consciousness of their 'Deutschtum' and the determination to preserve it.

The advent to power in Germany of National Socialism—in itself perhaps a symptom rather than a cause of this new national feeling—had naturally enormously strengthened and encouraged the more radical wing among the Suabians. Some of the latter had certainly been in touch with circles in Germany which had begun to interest themselves vociferously in the question of 'Auslandsdeutschum', and had drawn thence - if nothing else - a new determination not to submit to Magyarization or to being considered in any way a second-class element in the State. This view was not necessarily incompatible with loyalty and even with devotion to Hungary, but it was totally irreconcilable with the current Magyar national policy, and hardly less so with the attitude of Gratz and his followers.

The death of Bleyer, therefore, removed the chief restraining element in the situation. For another year or so outward harmony was still preserved, but the Radicals became increasingly impatient of the moderates, the moderates increasingly uneasy about the Radicals. A prolonged internal and indeed subterranean struggle went on within the U.D.V., and at last there came an open split, or rather, a disintegration. The Government naturally supported the moderates, and in 1935 the U.D.V. was 'purged' of its more radical elements, Dr. Gratz remaining sole President, while a priest of the name of Pintér, standing very near indeed to official circles, came in as Secretary-General. The *Sonntagsblatt* was suspended on a technicality, and reissued as the organ of the moderate wing.

As a sop to the Radicals, the U.D.V. was allowed rather more liberty of action; summer courses were instituted for the teachers in the German schools (though a separate training-college was still refused); and a definite promise was given regarding the 'C' schools. This bore fruit in a new Order in Council of December 23rd, 1935, which, as regards the State schools, abolished the 'A', 'B', 'C' types in favor of a uniform type closely resembling the old 'B' schools. The mother language itself, reading, writing, arithmetic, composition, orthography, natural sciences, domestic economy, hygiene, drawing, and handcrafts, were to be taught in the mother tongue; the Magyar language, reading, writing, ortho-

graphy, geography, history, civics, singing, and physical instruction,¹ in Magyar. From the fourth to the sixth years, the chief subjects taught in each language were to be repeated in the other.

These concessions were not, however, nearly enough to satisfy the radical party,² who were also not willing to follow M. Pintér as they had followed Professor Bleyer. The consequence was that the German movement remained divided, the majority of the younger men remaining in more or less open opposition, not only to the Government, but also to their own official leaders.

Thus Hungary still finds herself haunted by the unlaidd ghost of the nationality problem. The demands of the most nationalist Germans are, indeed, extremely moderate. They were summed up by a recent writer as follows:

Solution of the question of schools, including kindergartens.

German church Services for children.

A separate club for German University students.

Freedom of action for the T.J.D.V.

Application of the law regarding the use of minority languages in administration. Cessation of the 'abuses connected with the Magyarization of names.'³

The possibility of applying to an impartial Court over minority questions.

Corporate recognition as a 'nation' is not demanded, nor even cultural autonomy, or a separate political party. There is little that is Nazi about the program, still less does it betray the cloven hoof of irredentism. Indeed, apart from their genuine attachment to Hungary, of which, from personal acquaintance with several of the leaders, I am convinced, most of them realize that the geographical situation of the greater part of the Hungarian Germans entirely precludes irredentism for them.

1. This refers to the 'Levente Organization', a sort of pre-military training. The Germans have always accepted this in principle, but have asked, in vain, to be allowed their own detachments. Cf. the Sokol question in Yugoslavia.

2. The Hungarian Press represented the Act as a measure of great generosity. One paper, referring to remarks of my own on Hungary's need to set an example to the Successor States in the treatment of minorities, remarked that it fully agreed with me; this had always been Hungary's policy, as was proved by the new Act. However, the Act still puts the onus of asking for the school on the Parents' Conferences, who have still to fear the pressure of the authorities; it still fails to provide for an adequate supply of teachers; and above all it applies only to the State Schools, which comprise only 19 per cent. of the whole. The position of the Confessional Schools remains quite unaffected, while it is notorious that the chief pressure against the minorities has come less from the Government than from the higher authorities of the Roman Catholic Church. They have, however, been requested by the Minister of Education to fall into line with the State schools, and are said to have agreed to do so. On the other hand, complaints are already loud that even State authorities are sabotaging the Act.

3. Nation *und* Staat, February 1935, p. 326,

'Damals sind sie gescheiter gewesen', said an old gentlemen to me in Fiumein 1934.

Nevertheless, in the eyes of the Magyar nationalists, who have been deeply frightened by the attitude of various circles in Germany, they are traitors. They are hampered by the authorities, vilified in the Press, outlawed in social life. When, in the 1935 elections, some of them stood for Parliament on the list of the Independent Small-Holders (although with the avowed object of representing the national as well as the economic interests of their constituents), the whole governmental machinery was brought into operation and their election prevented by scandalous methods. One of them was sentenced by a provincial court to three months' imprisonment for having publicly condemned the Magyarization of names. The higher court, on appeal, increased this sentence to five months' imprisonment and two years' loss of political rights; and the Supreme Court confirmed the sentence fully—an interesting commentary on the excuse which is often put forward, that the chauvinism is confined to provincial opinion and subordinate authorities. Actually, I have found very little difference between provincial opinion and that of the Budapest Ministries, including the highest quarters. The words of Ministers President are, indeed, more carefully weighed than those of the editors of local papers or the tin gods of local towns. Count Bethlen particularly, when he visited Berlin in the autumn of 1930, went out of his way to praise the German minority in Hungary as a valued element of the population and a channel through which sympathy for the German language and nature penetrated into Hungary. His great wish and object, he said, was the complete satisfaction of their cultural and linguistic desires. He repeated these sentiments in a declaration to the Hungarian Press, and again when, soon afterwards, he visited Vienna. The German minority was to play the part of a link between Hungary and the Germans. General Gömbös, too, in some of his numerous speeches (in which he was somewhat addicted to promising all things to all men) found heartening words for the brave Suabian peasants, whose blood flowed, indeed, so richly in his own veins. But neither Bethlen nor Gömbös made the nationalities any real concession while it was in his power to do so. And in this attitude they have certainly acted in accordance with the wishes of the great majority of Magyar opinion—far too moderately for a certain wing, which would have the traitors wiped out once and for all.

This attitude is prompted not only by general considerations by the ingrained belief to which we have referred that no un-Magyarized citizen can be counted as safe—but also by a special complex towards Germany. The dominant feeling is perhaps not so much a fear that Germany, having swallowed up Austria, might lay claim to specific German-speaking areas in the Western

Counties (though horrid rumors, not all of them unfounded, have been circulated of a map showing the future Germany with frontiers reaching to Lake Balaton, and of Nazi agents circumperambulating the Western Counties),¹ as rather a general dread of German influence and domination. Joseph II is no less active a bug-a-boo than Adolph Hitler. These fears are, of course, sedulously fanned by the Jews, who edit and write the vast majority of the Press of Hungary.

One must sympathize with these fears, for Hungary has had good reason to dread German influence in the past. And yet, while sympathizing, one must still marvel that so very few Magyars understand the illogical character of their position. The most fanatical Magyarizers are at the same time the most active advocates of Treaty revision. One might have expected that, even apart from the question of revision in the future, the desire to protect the Magyar minorities beyond the frontiers would have led Hungary to follow a policy which entitled her to demand that the Successor States did likewise, viz. one of full encouragement of the separate national cultures of her minorities. Oddly enough, however, Hungary for years took little interest in the problem of minority protection. Its importance only began to dawn upon her when her confidence in the prospect of frontier revision in the near future began to wane. Even when she was forced to perceive that the new order could not be overthrown in a month or a year, the full truth of the proverb about the sauce for goose and gander did not penetrate the consciousness of 1 per cent of the population. A distinction was drawn between the Magyar minorities, who represented an earlier stratum of population and a higher culture, and as such merited protection, and the non-Magyars, recent comers and boors at that, whose natural and proper fate was assimilation. Thus Magyarization was still justified in theory, as it was still practiced.

For years the single influential voice heard to the contrary was that of M. Milotay, the famous Hungarian publicist. Quite recently, he has been joined by a few others, including Hungary's foremost modern historian, Professor Szekfü, who in a remarkable article urged that if the policy of identifying nationality with State was justified in any State, it was not in Hungary. Again, M. Ottlik published two articles in the same strain: 'Uj Hungária féle'² (Magyar Szemle, 1928), and *Tax Hungarica*' (Nouvelle Revue

1. For examples of the literature issued in Germany and clearly of a nature to awaken the most lively apprehensions in Hungary, cf. C. von Loesch, *Deutsche Revolution* (Berlin, 1933); H. Steinacher, *Volkstumjenseits der Grenze* (Stuttgart, 1934); F. Lange, *Volksdeutsche Kartenskizzen* (Berlin, 1935).

2. 'Towards a new Hungary.' Note the term 'Hungária', used in intentional contrast to the normal term 'Magyarország'. Cf. on this subject also the last section of Szekfü's book, *Három Nemzedék*.

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de Hongrie, November '934). But I doubt whether these ideas have yet begun perceptibly to influence either public opinion or Government policy. Both Count Bethlen and M. Eckhardt have recently found words of encouragement for the minorities; but then, Count Bethlen has left office, and M. Eckhardt has not yet been in it. Government policy, as we saw, has not altered beyond a little window-dressing, Catholic and public opinion has hardly changed at all.

Yet the question is clearly of fundamental importance in any consideration of the possibilities of treaty revision. The Successor States see this, if Hungary does not. This is why incidents like the Bleyer case do Hungary such immeasurable harm. There were in that case certain special circumstances. Bleyer, as a man, was unpopular, for reasons quite unconnected with his national policy, with the students who led part of the riotous scenes, which the Jewish Press took care to magnify in its anxiety to make a scarecrow of anything German. The incident was exaggerated far beyond its intrinsic importance, for the Magyar political leaders in all the Successor States, except Austria, have repeatedly suffered far worse things than were ever inflicted upon Bleyer, or upon the other national leaders of to-day in Hungary. Nevertheless, the fact remains that the Germans in the Successor States place the preservation of their *Deutschtum* so high that, unless Hungary alters her whole attitude, they will undoubtedly throw their weight against her if the frontiers ever come to be questioned; and the Successor States are handed, on a plate, the best argument against revision for which they could possibly hope.

It is true that Hungary, or some of her leaders at least, maintain that although the present 'unitary' policy is suitable for Trianon Hungary it could be different if the frontiers were revised. Thus Count Bethlen declared publicly in ~ that the minorities restored to Hungary would enjoy complete autonomy, and that Hungary would even submit to an international guarantee in this respect. The Bleyer draft of 1920 may perhaps be taken as earnest of what Hungary might in such circumstances be prepared to offer. But hitherto the minorities have been inclined to answer that a foretaste of deeds would be better than words. Nor are they sure that Count Bethlen represents all Hungarian opinion. For example, an article published in 1932 in the *Pesti Hirlap*, a nationalist paper of low intellectual level and wide circulation, preaches cultural liberty in the Greater Hungary to be established after revision 'for all minorities except the Daco-Romans, Yugoslavs, and Pan-Germans who refuse to give up their national community with their co-nationals beyond the frontiers'.¹ When

1. Cf. *Nation und Staat*, May 1932, p. 972.

'Damals sind sie gescheiter gewesen', said an old gentlemen to me in Fiumein 1934.

one considers how readily the slightest resistance to Magyarization is denounced as 'Pan-Germanism', 'Pan-Slavism', 'Daco-Romanism', &c., the wish of the prospective minorities for very sure guarantees is not difficult to understand.

The Jewish question in Hungary is quite different from that of any other minority. The Jews want exactly what the Magyar demands of a 'nationality': the fullest possible assimilation. Nothing pleases the Hungarian Jew so much as to be taken for a pure-blooded Magyar; no one carries the Magyar mentality to such extremes as the Magyarized Jew. The differences that arise between the two nationalities are due, not to the same causes as separate Magyar from German, but rather to an occasional reluctance of the Magyar himself to accept quite fully precisely this one recruit: to the instinctive anti-Semitism latent in every non-Semitic race among whom Jews live in large numbers. Now and again this feeling flares up and expresses itself in action; but hitherto the phase has always passed, and the curiously intimate *manage de convenance* has been renewed.

Immediately after the overthrow of the Commune, many of whose leaders had been Jews, there was a very bad outbreak of anti-Semitism, during which bands led by army officers, members of high society, and active politicians committed some of the worst excesses that have taken place in Central Europe since the War; certainly the worst anti-Semitic excesses. The outbreaks, however, gradually died away, although isolated instances occurred for years after the main 'White Terror' had been liquidated. They have not recurred since. Great fears were entertained when General Gömbös became Prime Minister, since during the Terror he had been one of the most notorious Jew-baiters. But he disavowed his past, promised to treat the Jews with toleration, and kept his word.

There has, indeed, been no country in Europe containing so high a proportion of Jews which has suffered them so gladly. It is fortunate for each that their qualities are so nicely complementary. The Magyar is the ruler and the administrator, the Jew the business man and intellectual. Thus a sort of unwritten compromise has been reached by which the Magyar supplies the administrative landowning and land-cultivating class, while the Jews manage the business, the shops, and most of the free professions. The Magyar tolerates the Jew, the Jew supports the Magyar.

In point of fact, since business has proved far more lucrative than landowning, the Jew has had the better of the bargain, and he has had the sense to realize this and not to press his claims too hard. There has only been one open conflict since the White Terror ended. Hungary in 1920 passed a law, notoriously aimed at the

Jews, which restricted the numbers of students of each race and nationality admitted to the Universities to a figure proportionate to the number of Hungarian citizens of that race or nationality. The West-European Jews appealed to the League and the law was revised, although more in name than in fact. The 'numerus clausus' was not, and has not been, repealed in reality, although it is not strictly applied, so that the Jews are allowed a number of students which is below their real requirements, but about double their strict national quota. Characteristically, the Hungarian Jews did not join in the appeal but asked, and got, from the Hungarian Supreme Court, a ruling that they did not constitute a separate nationality.

This incident might perhaps be regarded as a by-product of the White Terror, and its liquidation as marking the end of a chapter. Since that time all has been peace, as regards official actions, and the sincere attachment of the Hungarian Jews to their country is not to be doubted. If it is impossible to describe the Jewish question in Hungary as completely solved, this is because of certain symptoms which have appeared in recent years, dangerously resembling what has occurred in Romania. As in that country, there is a large plethora of unemployed 'academical youth'. University education is not, indeed, so cheap in Hungary, nor is it nearly so easy for a peasant's son to achieve it. On the other hand, there are innumerable impoverished middle-class families, including the many thousands of refugee State employees from the Successor States. In spite of every effort the Government cannot find posts in the State services for all these young men, and they are now beginning to knock on the doors of the business houses—to find the desired jobs held by Jews. Further, Germany is near enough to Hungary for its ideas to prove infectious, and various small National Socialist parties with specifically anti-Semitic programs have been founded. These were taken rather lightly by Hungarian public opinion for several years; but that they took themselves more seriously was shown by the extraordinary outburst in the spring of 1937 when, it appears, some of them really planned a *coup d'état* on 'Nazi' lines. This was duly and, energetically suppressed. Far-seeing Jews were much more deeply disquieted when the Government set afoot discreet inquiries to certain business houses, &c., as to the possibility of limiting the number of Jewish employees. There are certainly some Jews who regard as a serious possibility a new outbreak of economic anti-Semitism. Up to date this has not occurred, and it is still fair to give Hungary high marks for her treatment of the Jews and to emphasize the attachment of the Jews to Hungary—adding in parenthesis that they do much to inflame the situation with respect to the other minorities, particularly the German.

§ 3. THE ECONOMIC PROBLEM

As has been seen, the War found Hungary in the middle of a process of development which was being conducted on very definite and carefully planned lines. The purpose was to create at least a partially self-sufficient planned national economy within the frontiers of the then kingdom. The periphery, with its mineral deposits, forests, and water-power, was to supply the raw materials and to contain those industries which, by their nature, were best situated in the vicinity of their raw material and their power supply; Budapest was to be the site of the finishing and luxury industries, as well as the center of administration and finance; while the great plains of Central Hungary provided the agricultural produce which, until this period of development began, had been Hungary's traditional source of wealth.

The Peace Treaty, roughly speaking, took from Hungary all the periphery, leaving her with Budapest and most of the chief agricultural districts. In other words, the principal loss in material resources was in the raw materials required by the manufacturing industry. Hungary lost 84 per cent. of her forests,¹ approximately the same proportion of her iron-ore, and all the copper and nearly all the other non-ferrous metal-ores such as lead, zinc, bauxite, and manganese; all the salt also was lost. Over 70 per cent of her lignite remained, but nearly 90 per cent of the waterpower was alienated. On the other hand, while the total area left to her was 32.7 per cent of the former figure, she retained 57 per cent of the arable land, including 45.7 per cent. (1911—15 averages) of the land under wheat, 69 per cent. of that under rye, 473 per cent. of that under barley, and 39.1 per cent. of that under potatoes. Hungary has now the highest percentage of arable land of any country in Europe except Denmark.

So far as stock-breeding is concerned, Hungary was left at the end of 1918 with rather less than a third of the cattle she possessed in 1911, about half the pigs and horses, but only just over a quarter of the sheep; further losses resulted from the Romanian invasion of 1919. The Treaty left Hungary somewhat deficient in fodder. Only 35 per cent of the area formerly under maize remained, and 372 per cent of the land under clover, though 62.6 per cent of the land under turnips, and 58.8 per cent. of that under vetch and 56.5 per cent of that under lucerne was left. It should be added that about 70 per cent. of the vineyards formerly owned by Hungary remained to her under the Treaty.

While the settlement took away most of the industrial raw

1. For these statistics, see Dr. Ladislaus Buday, *Dismembered Hungary* (Budapest, 1922). Cf. *Justice for Hungary*, pp. 253 ff.

'Damals sind sie gescheiter gewesen', said an old gentlemen to me in Fiume in 1934.

materials, it left Hungary with a disproportionate share of the industrial plant. Nearly half of the undertakings remained, and nearly half of the workers formerly employed. Thus the new Hungary was more highly industrialized than the old; in the latter, according to the 1910 census, 64.5 per cent of the population had been engaged in agriculture, fishing, and forestry, and 23.6 per cent in mining, industry, trade, and transport, while in 1920, in the new Hungary, the figures were 55.8 per cent and 30.1 per cent respectively. The losses fell, of course, very unevenly on the different industries. For example, 91 per cent of the quarries were lost, 89 per cent of the saw-mills, 73 per cent of the cotton-mills, 68 per cent of the glass-works, and 60 per cent of the iron- and steel-works. On the other hand, 82 per cent. of the machine industries, 75 per cent of the clothing industry, and 58 per cent of the food-stuffs industries--mainly flour-mills--remained.

It is true that in many cases where Hungary lost important industries, she lost also the raw materials which they required. But the general effect was to leave Hungary wholly, or almost wholly, devoid of a number of essential industries, while burdened with a number of factories which either, as in the case of the machine and most of the finishing industries, were now forced to depend on imported raw materials or, as with the flour-milling and other agricultural industries, had been built up to supply not only the old Hungary but Austria as well.¹

The loss of material resources by no means completed the list I of economic and financial losses which Hungary suffered through

1. Pasvolsky, *Economic Nationalization of the Danubian States* gives the following figures for 1923:

	<i>Productive capacity of undertakings expressed as a percentage of those of pre-War Hungary in 1913.</i>	<i>Raw materials available in post-War Hungary, expressed as a percentage of those available for pre-War Hungary in 1913.</i>
Machinery	82	42
Food products	58	44
Leather	58	48
Glass and stone	58	40
Metallurgy	50	10
Textiles	41	15
Chemicals	40	30
Paper	20	12

Similarly, only 30 per cent of the flour-milling industry of Budapest (the largest in the world after that of Minneapolis) could be utilized in 1925, owing to the lack of grain, which formerly came from the southern territories now separated from Hungary.

¹'Damals sind sie gescheiter gewesen', said an old gentlemen to me in Fiumein 1934.

the Peace Settlement.¹ These further losses are naturally of a far less tangible nature; to ask what they were is, in effect, to ask what would be the economic position of the new Hungary if the territorial redistribution had not taken place. In the nature of the case such a question is not one to which there can be any precise answer. One thing, however, is clear: that no attempt to answer it would be intelligible without some account of Hungary's economic and financial development since the War.

The declaration of the republic, the Bela Kun episode, the Romanian invasion, and the attempt thereafter to restore some sort of order, all put a very serious strain on Hungary's national finances, which were already suffering from four years of war. In addition, the State had also to assist, by pensions and otherwise, the 330,000 Hungarians who had been living in territory now under foreign rule and who had either been expelled from their homes [or had migrated voluntarily to Hungary.² A further extraordinary liability imposed on the national finances arose out of the agrarian reform, moderate though this measure was when compared with those effected in the neighboring countries, which began in 1921. Moreover, the Treaty of Trianon had declared (Article 180) that the unspecified cost of reparations should be 'the first charge upon all the assets and resources of Hungary'. This provision made it impossible for Hungary to meet these exceptional expenses by borrowing abroad even if foreign markets had been able and willing to absorb a loan sufficiently large in the years before 1923.

The State was therefore compelled to resort to inflation, a process which did not cease until the reconstruction loan was issued in the summer of 1924. The external value of the Austro-Hungarian krone had already depreciated as the result of war financing from a gold parity of 20.26 cents (United States old gold parity) to about 7 cents in November 1918. During 1919 a separate currency, the Hungarian krone, was created and in the following year Hungary received her share of the assets, mainly gold, of the central bank of the Empire, the Austro-Hungarian bank. But in spite of this, depreciation proceeded apace and prices rose, since the Government was forced to print notes in order to meet its liabilities. By the middle of 1924 the external value of the krone was little more than 0.001 United States cents, about one twenty-thousandth of its gold parity. It is noteworthy, however,

1. E.g. an important direct loss to Hungary's balance of payments arose from the great diminution in the amount of remittances from emigrants, most of whom came from the parts of Hungary lost to her under the Treaty.

2. The civil service had also been reorganized shortly before the War, as a result of which the number of civil servants coming into the pension list has increased steadily during recent years.

that the depreciation of the Austrian krone was considerably more rapid until the Austrian currency was stabilized in 1922, an indication that the potential economic strength of Hungary was considered to be greater than that of Austria.¹

The restoration of normal economic conditions in a period of both political and economic chaos was, of course, almost out of the question. Nevertheless, considerable progress was made in some directions even before reconstruction was placed in the hands of the League. Conditions in the Successor States were; almost equally chaotic, and they had not yet been able to loosen; their economic ties with Hungary in response to the requirements of nationalistic policies. Moreover, the redistribution of land carried out after the War by Czechoslovakia, Romania, and Yugoslavia had seriously reduced their agricultural production, while the much less drastic reform carried out by Hungary² had not the same effects. In the case of maize there was even an increase of production. Thus the Successor States were still compelled to rely for a large part of their agricultural raw materials on Hungary, whose exports increased from the equivalent of 190.6 to 392.2 million pengö between 1920 and 1923, no less than 70.6 per cent of the total in the latter year going to Austria, Czechoslovakia, Romania, and Yugoslavia. Imports, which rose from 484.1 to 625.7 million pengö between 1920 and 1922, fell to 490.7 million in 1923, but in that year some 63 per cent of the total came from the above four States. The difference of value between imports and exports was made good partly by services and partly by relief credits from the Allied Powers.

In the manufacturing industry, however, the position was worse. The central problem of re-equipping the industrial system for the new and now greatly restricted home market, and eliminating superfluous plant, was seriously complicated by the difficulty of importing raw materials at a time when the currency was depreciating and the import surplus was at an abnormally high level; and since the new frontiers had cut off Hungary's periphery from her center, the great majority of the raw materials needed by her factories now had to be imported. This problem was left almost untouched in the first few years after the War. Meantime, budgets were unbalanced, deficits could be met only

1. A full discussion of Hungary's monetary history from 1918 to 1924 is contained, in vol. ii of *European Currency and Finance*, a report prepared in 1925 for the Commission of Gold and Silver Equity of the United States Senate, pp. 103—24.'

2. In all, a little over 1,000,000 yokes of agricultural land were distributed, something less than 700,000 yokes of which went in dwarf holdings to persons who had previously been landless. Over 45 per cent of the agricultural land of Hungary still consist of holdings of over 100 yokes, and 30 per cent. of properties of 1,000 yokes and over.

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by inflation, and the currency was steadily depreciating. It was clear that external assistance was required if any solution was to be found. That help was provided through the League of Nations reconstruction scheme, negotiations for which began in April 1923.¹ In briefest form, the outlines of this scheme were as follows: reparation payments, except for deliveries of coal, were suspended until 1926, after which the average annual payment, for twenty years, was to be 10 million gold crowns. The Reparations Commission lifted the first charge on Hungary's assets and revenues. An independent bank of issue was established and financial reforms carried through, the League providing a Commissioner-General to supervise the reforms; and a foreign adviser was appointed to the bank of issue. A loan of 250 million gold crowns was issued in July 1924 in London (which took up £7,902,700), New York, Milan, Zurich, Amsterdam, Stockholm, Prague, and a small tranche, in Budapest. The krone was stabilized and a new currency, the pengö, introduced in July 1925.² The budget was balanced, and the whole program of reconstruction completed well within the prescribed date, June 30th, 1926.

It now at last became possible for Hungarians to face the wider problems of reconstruction: the discovery and conquest of new ~, markets for Hungarian exports, the rationalization of industry, and in general the adjustment of the new Hungary's economy to the new conditions. Outside Hungary, particularly in London and New York, the success of reconstruction gave confidence to the investing public, and to bankers whose connections with Hungary had often reached far back into the past, but who had naturally been deterred by the chaotic conditions hitherto prevailing. In other words Hungary was ready to adjust herself to the new economic conditions just at the stage when foreign capital was ready with the finance without which such a readjustment would have been impossible. The result of this conjunction of circumstances was that after the reconstruction loan was issued, Hungary enjoyed five years of comparative prosperity.

During all this period foreign capital was entering the country on a large scale. It was estimated by Dr. de Schober³ that between 1924 and 1929 the nominal amount of long-term foreign capital

1. For a detailed history of the financial reconstruction of Hungary undertaken by the League of Nations, see R.I.L.A., *Survey of International Affairs, 1924*, pp. 423—37.

2 The parity of the pengö was fixed at 27~52\$06 to the £. Early in 1924, when the reconstruction scheme was threatened by a temporary refusal of the United States to participate in the loan, the Bank of England had advanced £4,000,000 to the State Note Institute on condition that the Hungarian currency would eventually be stabilized on a sterling basis. (Article by Dr. Alexander Popovics.

The Economist, December 20th, 1930.)

3. *The Economist*, December 20th, 1930.

invested in Hungary, including the League loan, was not less than £ 50 million gold,¹ of which about Û20 million came from the United States and Û19 million from Great Britain. Some £ 12 million was taken up by local authorities such as the Counties, the municipalities, especially Budapest, and the communes; and used mostly for public utility purposes. A further £ 15 million was laid out in agricultural mortgages and applied partly to financing purchases of stock and plant required as a result of the land reform, partly to improving agricultural production and to replacing losses incurred during and immediately after the War. About £ 5.6 million was invested in industry, notably in the construction of a power-station near Bánhida to supply Budapest, which was financed in Great Britain. Lastly, nearly £4 million was invested in urban real estate. Equally important, perhaps, was the large volume of foreign short-term credit, estimated by Dr. de Schober in 1930 at about £18 million,² which was made available to Hungarian banks, mainly by the British, American, Swiss, French, and Dutch banking systems.

Thanks largely to these short-term credits, Hungary achieved an almost spectacular success in foreign trade during these years. The value of exports rose from 667 million pengö in 1924 to 1,038 in '929; that of imports from 8i~million in 1924 to 1,183 million in 1928. The value of imports still habitually exceeded that of exports, largely owing to the considerable imports of capital then taking place and to the growth of industrialization; but invisible exports also increased substantially during these years, particularly the net income from the transit trade, and the remittances from emigrants. These items, of course, tended to lessen the deficit, though it certainly remained a deficit.

Hungary's foreign trade in this period continued to be based, roughly speaking, on the exchange of her agricultural products for manufactured articles. More than half her exports were classified as food and drink; more than half her imports as finished goods. Semi-manufactured imports accounted for about 40 per cent, of the total; manufactured exports for only a fifth. Quantitative changes as compared with the previous period are impossible to determine; the principal qualitative change, it would seem,, was, as regards exports, that less agricultural produce went to Slovakia owing to the increase of agricultural production in Czechoslovakia. The old trade in manufactured exports to Transylvania and Croatia Slovenia (particularly agricultural machinery) did not disappear, for the corresponding manufacturing industries in Romania and

1. It would seem that the amount was rather larger, since the figure apparently allows for amortization effected between the two dates.

2. Other estimates put the figures considerably higher.

Yugoslavia were not yet able to compete. Qualitative changes in imports were considerable. Timber, chiefly from Transylvania, and most of the non-ferrous metals all had to be imported.

When allowance is made for Czechoslovakia's agricultural policy and for the far less important policy of industrialization in Romania and Yugoslavia, Hungary's trade in the years 1924-9 suffered less than might have been expected. More than half her foreign trade was still with the Successor States; in 1928, 63.6 per cent of her exports went to Austria, Czechoslovakia, Romania, and Yugoslavia, which countries accounted for 51.7 per cent of Hungary's imports in that year. About a tenth of Hungary's exports went to Germany in this period; about a fifth of her imports came from that country. A growing market was found in Italy for Hungarian exports, possibly owing to the political connection; and the percentage of exports rose from 6 in 1924 to nearly 13 in 1930. Trade with Western Europe was on a small scale, but tended to increase; and a noteworthy beginning was made in the attempt to find markets for Hungarian products overseas.

Meanwhile the position of the producing farmers was not unfavorable. Agricultural prices, if not rising, were at any rate maintained at a high level; and capital, ultimately provided by foreign banks, was available for improving production, though interest rates were high. Production did in fact increase considerably in most of the more important crops. Thus the annual average production of wheat from 1926 to 1930 was no less than 22.3 million quintals, as compared with 16.2 million in the preceding five years, and 20 million from 1911 to 1915.¹ Similarly the average production of maize was 16.3 million quintals during 1926 to 1930 as compared with 15.1 million quintals during 1911 to 1915, though it reached 179 million from 1921 to 1925. The production of barley, rye, oats, and potatoes also improved considerably from 1926 to 1930 when compared with the preceding five years, though it did not attain to the levels of the years 1911 to 1915. This is true also of sugar beet, the average annual production of which rose from 9.8 million quintals during 1921 to 1925 to 18 million in 1926 to 1930. Vine growers also did well, although rather less satisfactory results were obtained in stock-breeding.

The solution attempted for the manufacturing industry was to achieve the greatest possible degree of industrial self-sufficiency. This, in turn, involved the introduction of a protective tariff. Whether this policy was deliberate² or not there was much that could be pleaded in justification. Since the War the density of

1. Post-War territory.

2. This view is maintained by Gustav Graz. The policy is ascribed by him to Count Bethlen, who came into office in April 1921. See 'Die Wirtschaft Ungarns, 1919—1934', in *Zeitschrift für Politik*, vol. xxiv (1935), p. 96.

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population had increased considerably, the outlet of emigration was rapidly disappearing, and further industrialization seemed the only answer, failing a really radical agrarian reform.' Moreover, some use had to be found for the existing industrial plant. Lastly, to manufacture in Hungary what had previously been imported would lead to a considerable (and, at this time, very necessary) saving in foreign exchange. What is surprising is that more serious resistance was not encountered from the agricultural interests, for to exclude the manufactures of Austria and Czechoslovakia would encourage these States, it might be thought, to exclude Hungary's agricultural products. However, they appear to have agreed to industrial protection on condition that similar protection was accorded to their own products, and in 1924 protection was introduced.

The rapid progress of industry during these years was not due to protection alone. The banks, which, in Hungary as in most of Central Europe, owned most of the larger industries, passed on many of the credits which they were receiving from abroad to industry as working capital. In other cases, the receipt of credits released other of the bankers' funds for this purpose. All in all, industry experienced little difficulty on the financial side. Moreover, the level of wages was comparatively low. Thus, remarkable success was achieved in this period, for the comparative prosperity of agriculture stimulated internal consumption, while the surplus production could still be exported to Rumania and Yugoslavia as was seen above. The progress made can be; judged from the following table:

Value of Industrial Production

	<i>(In million pengö.)</i>	
	<i>1913</i>	<i>1928</i>
Food and drink	807	1,106
Textiles	95	378
Iron and metals	293	317
Machinery	262	236
Chemicals	144	202
Others	303	608
Total	1,904	2,847

It is true that the progress was not uniform. It is doubtful, for example, whether the milling industry has ever been employed at anything like capacity since the War. But in general the progress was considerable, particularly in the textile industry. Between.

1. The number of entirely landless agricultural laborers was estimated by one authority in x 933 at over 2,000,000; that of dwarf-holders whose holdings were insufficient to support themselves and their families, at nearly 1,000,000 See C. A. Macartney, *Hungary (Modern World Series, London, 1934)*, p. 245.

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1920 and 1929 the number of cotton spindles rose from 30,000 to 243,000, and of woolen spindles from 6,000 to 69,000.

The budgetary equilibrium introduced by the reconstruction program was maintained throughout these years, and the first deficit did not occur until the fiscal year 1930-1. Ordinary expenditure rose considerably—from 728 million pengö in 1925/6 to 965 million in 1928/9—but revenue was increased paripassu. No serious difficulty was experienced in collecting taxes, although so far as can be judged the per capita level of taxation was higher in Hungary than in the other Successor States. Lastly it may be mentioned that Hungary's liability on reparations account was definitely settled after The Hague Conference of 1930. In addition to the sum mentioned above,¹ Hungary undertook to pay an annual sum of 13.5 million kronen from 1944 to 1966; and the lien on her assets was finally rescinded. The so-called optant question ² also was settled in 1930.

The outward aspect of the position towards the end of this period may be summed up somewhat as follows. The currency had been stabilized and order reintroduced into the national finances. Foreign trade had increased considerably. Prices were at a high level, and the farmers, whose production had recovered to the pre-War level, had enjoyed some years of prosperity. In industry, the desire to achieve self-sufficiency had led to something like boom conditions. A superficial observer might have supposed that Hungary had succeeded in establishing an economic *modus vivendi* within the limits of the Treaty of Trianon.

By the end of 1929 the foundations upon which this apparent recovery had been built up were, one by one, beginning to collapse. Since the middle of 1929 the trend of world agricultural prices had been downward, and was rapidly acquiring momentum. In Hungary, the index of wholesale prices fell from 100 in 1929 to 78.5 in 1931. Foreign, particularly American, capital was by no means so easy or so cheap to obtain, though both in 1930 and in 1931 the Treasury managed to negotiate two considerable short-term credits abroad for the purpose of balancing budgets whose equilibrium had been disturbed by the growing agricultural depression. But the foreign debt was now very heavy; the total annual charge for amortization and interest had reached some 300 million pengö,³ and even in Hungary doubts were beginning to be

1. See p. 465.

2. Viz. the question of compensation to be paid by the Successor States to Hungarian nationals expropriated by them as a result of agrarian reform.

3. Special report by the Financial Committee of the League on the Financial Position of Hungary, October 24th, 1931, p. 8. Of the countries taking part in the Stresa Conference of 1932 (Austria, Bulgaria, Czechoslovakia, Greece, Hungary, Poland, and Yugoslavia) Hungary had the largest *per capita* foreign debt, viz. 432 Swiss francs per head. The next highest was Greece, with 378

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expressed ¹ as to the desirability of increasing the strain on the balance of payments by further borrowing abroad, Meanwhile, in the autumn of 1930 the desire of Czechoslovakia to extend her agricultural production led to the denouncing of the commercial agreement between that country and Hungary; and to a violent fall in Hungary's trade with Czechoslovakia, formerly one of her best customers.² Then came the failure of the Oesterreichische Credit-Anstalt in May 1931—a disastrous blow; for not only had the financial organization of Hungary been closely connected with that of Austria, but the event dispelled any confidence which might have remained in Central Europe as a whole. Finally, the collapse of the German banking system in July 1931 led to a financial and economic crisis of the first order in Hungary itself.

It is not possible to enter into the details of the crisis of '931—3 or to describe all the various developments which led to the subsequent partial recovery. Certain aspects of the crisis must, I however, be carefully examined if a correct conclusion as to Hungary's present position is to be obtained.

The crisis of the summer of 1931 was primarily financial. Beginning outside Hungary, it hit that country very severely owing to its overborrowed condition. The foreign debt charges could be met only by further borrowing or by converting the surplus of merchandise imports into a surplus of exports, for the net invisible exports were negligible by comparison. The former alternative being out of the question, the latter had to be attempted. But Hungary's exports, being predominantly agricultural, had greatly diminished in value; and markets, such as Czechoslovakia, were, one by one, being restricted. Therefore, although an export surplus was achieved, for the first time since the War, in 1930, the total value of the trade had so fallen that the surplus was of little real value.

	Value in million Pengö			Value in million quintals.	
	<i>Imports.</i>	<i>Exports.</i>	<i>Import (-) or export (+) surplus.</i>	<i>Imports.</i>	<i>Exports.</i>
1928	1,183.3	803.3	-380.0	66.3	21.7
1929	1,063.1	1,038.5	- 25.2	67.1	27.5
1930	823.3	911.7	+ 88.4	48.9	22.9
1931	539.4	570.4	+ 31.0	33.5	18.8

Swiss francs per head, the lowest Bulgaria, with 118 Swiss francs per head, (League of Nations: Commission of Inquiry for European Union: *Report of the Stresa Conference for the Economic Restoration of Central and Eastern Europe* (1932, Vii, II], p. 7).

1. Cf. article by Dr. Bela de Imrédy in *The Economist*, December 20th, 1930. 2 Exports to Czechoslovakia fell from 154.7 million pengö in 1930 (or '70 per cent. of Hungary's total exports) to 23.8 million pengö (or 4.2 per cent. of the total) in 1931

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Realization that the service of the foreign debt could not be met if these conditions continued led to the withdrawal of foreign capital from Hungary in the spring and summer of 1931, and, in Hungary itself, to a flight from the currency,¹ which the classical expedients, such as the raising of the bank-rate,² were quite unable to prevent. The situation came to a head when the German banking system broke down in July; when Germany imposed a bank holiday, Hungary followed suit, and when the Hungarian banks reopened, it was under a régime of rigid restrictions on the transfer of money abroad. These measures enabled the Government to allay the immediate fears of the population as to the stability of the currency, though the stability was of a most artificial nature. In August the principal short-term, creditors agreed not to withdraw any more of their credits, to which decision they have since adhered; a formal standstill agreement with the principal short-term creditors was signed in January 1932, and has since been periodically renewed. In December 1931 a moratorium was imposed on the transfer of foreign currency on the entire medium and long-term debt, public and private. The Reconstruction Loan only was excepted from this provision.³

The internal situation called for more active remedies. The increase of public expenditure since 1924 had been substantial, but as the income of the farmers decreased owing to the fall of prices, revenue shrank. Expenditure could not be rapidly compressed, and a heavy deficit was realized in 1930—I. The situation was examined by the League in October 1931, and Hungary undertook to reduce expenditure, to restrict internal borrowing, and to install a resident representative of the League until financial stability should be assured. A period of deflation began.

The effect of the crisis on the agricultural population was perhaps the most serious. Long after the financial and budgetary crisis had been settled, in principle at any rate, world prices continued to fall. In Hungary, the index of wholesale prices (1929 = 100) dropped from 78.5 in 1931 to 76 in 1932 and to 62.7' in 1933, and the average price at which wheat was exported in 1932 was hardly more than 9 pengö per quintal, as against 32 pengö per quintal in 1926. Moreover, the restriction of foreign

1. In spite of a credit from the Reichsbank in the spring of 1931 amounting to \$5 million and a further credit from the Bank for International Settlements of \$21 millions and Lx million, the gold and foreign exchange holding of the National Bank fell from nearly zoo million pengö at the end of 1930 to about 120 million by the end of June 1931.

2. The bank-rate was raised to 9 per cent. in September 1931.

3. Sufficient funds were in the hands of the Trustees of this loan to pay the full interest in foreign currency up to July 1933. Since that date, up to the time of writing, half the interest due has been transferred in foreign currency.

markets for Hungarian agricultural produce continued; in 1932 Austria began to limit very severely her imports from Hungary. The effects of these developments upon Hungarian agriculture were catastrophic. On the one hand there was an enormous fall in the purchasing power of the farmers.¹ On the other there was a serious decrease in efficiency, the incentive to which was quickly disappearing.² A considerable decrease in yield resulted. Of the six principal crops (wheat, maize, barley, rye, oats, potatoes) the average yield of maize and barley only was higher during the years 1931—5 than in the preceding five years. The yield of potatoes fell from an average of 71 quintals per hectare in 1926—30 to 56.6 quintals per hectare in 1931—5.

The benefit to Hungary of the good harvest of 1931 and the excellent harvest of 1932 was thus greatly reduced, and the Government had to come to the assistance of the farmer. But the State's attempts to support prices, in particular those of wheat, had little real effect on the position, while involving the taxpayer in heavy losses. Greater results were achieved as regards agricultural debt. The farmers had borrowed heavily, usually on mortgage, when prices were high, and were now quite unable to meet their charges. The carrying out of contracts would have involved wholesale dispossession and serious social disorder. The principle of the Government's policy, formulated in a series of provisional measures from 1932 to 1933, was that foreclosure should be suspended provided current interest was met at a reduced rate; in some cases the State took over part of the debt. A settlement was not finally reached until October 1935.⁴ This settlement, though less radical than those effected in neighboring countries imposed a heavy burden both on the creditors and the State. No estimate of the

1. The West European finds it hard to imagine the complete absence of money in the countryside of Central and East Europe during the worst of the crisis. In whole villages of Hungary not 20 pengő in cash were to be found; everything was conducted on a barter basis, drinks in the public house being paid for by potatoes, the weekly shave by a dinner a month, and so on. The Government itself was forced at one time to accept taxes in the form of wheat.

2. Between 1925 and 1928 the number of tractors in use rose from 1,188 to 4,000. In a report for the years 1930—2, the British Commercial Secretary at Budapest stated (Great Britain: Department of Overseas Trade: *Report on Economic Conditions in Hungary 1930—1932*) that 'owing to the great fall in the prices of agricultural produce, not only has the purchase of tractors entirely ceased, but the use of them has also been discontinued, and several thousands of them are lying idle all over the country'. The same was true of threshing machinery. Similarly, 1.9 million quintals of artificial fertilizers were used in 1928, but less than a sixth of this figure in 1933 (*ibid.*, 1933).

3. The methods by which the State attempted to support wheat prices is described by the Representative in Hungary of the League Finance Committee, Mr. Royall Tyler, in his first report (p. 7), for the fourth quarter of ~ and his third report (p. 8), for the second quarter of 1932.

4. The details are given in Mr. Royall Tyler's 6th report (for the third quarter of 1935), pp. 9—10.

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total of liabilities assumed by the State can be given, but in Mr. Royal! Tyler's opinion¹ they 'reach the limit at present [October 1935] possible without incurring serious danger'.

On industry the effect of the crisis was nearly as catastrophic. The fall in agricultural purchasing power made it almost impossible to sell many products to the farmers, particularly as the price of manufactured articles naturally fell more slowly than that of agricultural produce, in spite of the efforts of the Government to support the latter. The scarcity of foreign exchange restricted the purchase of raw materials, at best, to the barest necessities. Exports were greatly reduced owing to the import restrictions abroad. Lastly, many of the more important concerns had been financed, through Hungarian banks, by foreign capital which was no longer available. Consequently, during 1931 and 1932 production in many branches came almost to a standstill. The undertakings producing capital goods, iron and steel, machinery, and chemicals, were hardest hit; for instance, in 1932 only about 100 threshing machines were exported in all, as compared with an export of about 1,500 to the Balkan States alone in normal years. The milling industry also, which, as was seen, suffered seriously from the Treaty, was gravely affected, for grain supplies from the Balkan States ceased almost entirely, and the flour milled in Budapest fell to 150,000 tons as compared with about 800,000 tons before the War. On the other hand, the necessity to restrict imports undoubtedly stimulated the tendency already noted towards self-sufficiency. Even in the worst years of the crisis there were branches of industry which benefited from this development. The textile industry, for example, began during these years to manufacture yarns which had formerly been imported.

In 1933 a gradual recovery began. The farmer was helped by the gradual rise in wholesale prices. Industrial activity, stimulated by the need to reduce imports, increased greatly. Foreign trade also improved considerably, and the balance of payments benefited by the development of an important tourist traffic. The budget was favorably affected by the general increase of activity, and deficits were substantially reduced. The foreign creditor alone—up to the time of writing—was not permitted to share in this improvement.

The improvement in the position of the farmers was due partly to the relief afforded by the State to agricultural debtors, but even more to the rise in prices. The index of wholesale prices, which includes those of a number of not strictly agricultural products, rose from a low level of 627 (1929 = 100) in 1933 to 74'1 in 1935,

1. *Ibid.*, p. 10.

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and stood at 73.6 in 1936; the rise in the price of agricultural produce can be seen from the following figures : ¹

	<i>Wheat.</i> (per 100 Kg.) pengö.	<i>Live Cattle</i> (Middling quality) per Kg. pengö.	<i>Calve.:</i> (per Kg.) pengö.	<i>Pigs.</i> (per Kg.) pengö.
Jan. 31, 1932 .	12.53	0.50	0.86	0.85
Dec. 31, 1932 .	12.80	0.62	0.70	0.87
1933 .	7.15	0.54	0.79	0.77
1934 .	16.73	0.49	0.78	0.80
1935 .	18.45	0.50	0.88	0.95
1936 .	20.10	0.79	1.16	1.14

Moreover, while the difficulties of exporting agricultural produce to the Successor States did not decrease, a market was found in Germany for a considerable proportion of Hungary's agricultural goods, the sale of which was financed by a clearing agreement. Thus, though the basic principles of Hungary's agricultural system remained unchanged since 1931, the value of agricultural production increased from 860.2 million pengö in 1933 to 1,109.8 million pengö in 1935. The figure in 1936 was probably even higher, though not as high as that for 1929, viz. 1,819.2 million pengö.²

This recovery in agriculture, combined with the drive towards self-sufficiency, led also to an industrial recovery. The index of industrial activity stood at 127.4 (1929 = 100) in the third quarter of 1936 as compared with 114 in the corresponding quarter of 1935, and averages of 97.5, 83.9, and 76.9 for the years 1934, 1933, and 1932 respectively. Production in several important sections of manufacturing industry towards the end of 1936 was close to capacity; and new plant was being built. For the textile industry alone, the index of activity (1929 = 100) stood at 138 in the third quarter of 1936, as compared with 106.7 in the third quarter of 1935, and averages of 123.1 for the whole year 1935, 129.4 for 1934, 115.6 for 1933, but only 85.1 for 1931. These figures suggest that the desired end, viz. the achievement of the maximum of industrial self-sufficiency, has been brought appreciably nearer during the last few years. This conclusion is supported by the fact that Hungary's imports of manufactured goods have fallen considerably in the last few years, while imports of raw materials and semi-manufactured goods have increased. From 1926 to 1930, 52.1 per cent on the average of Hungary's imports were manufactured goods and only 40.7 per cent raw materials and semi-manufactured goods. In 1935 the percentage of manufactured goods was 37.1,

¹ Quarterly reports of Mr. Royall Tyler.

² These figures are given by the Hungarian Statistical Office and the annual *Die Volkswirtschaft Ungarns*, issued by Dr. Georg Kemény, Dr. Mark Mitnitzky, and Josef Vágó.

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that of raw materials and semi-manufactured goods 47.8. Industrial self-sufficiency could, of course, be carried a stage farther if Hungary were to attempt to manufacture substitutes for the raw materials which she lacks. Of this there has so far been no sign, and there is probably not sufficient capital in the country to finance such an experiment, which would be costly in the extreme.

Since the worst year, 1933 for imports (312.6 million pengö), and 1932 for exports (334.5 million pengö), the value of Hungary's foreign trade has steadily improved. In 1936 imports were valued at 433.5 and exports at 509 million pengö. These figures do not bear comparison with those for the period 1924—30, and the volume of imports in 1936 was still less than half that of 1929, though the volume of exports was 20.7 million quintals as compared with 27.5 million in 1929. The export surplus, however, has been maintained every year since 1929.

Changes in the distribution of Hungary's trade are perhaps more remarkable. The proportion of Hungary's exports to the Successor States has continued to decrease from 57.2 per cent of the total in 1929 to 31.3 per cent in 1935. In the latter year only 43.6 per cent of her imports came from these States, as compared with 48.8 per cent in 1929. Germany, acting through her clearing agreement, has become Hungary's best customer. Exports to that country in 1935 were 23.9 per cent of the total as against 11.7 per cent in 1929, though imports from Germany have increased much less. Partly as the result of the Rome Pact of 1934 and or Hungary's refusal to participate in sanctions, exports to Italy have been maintained at about 13 per cent of the total. Lastly, trade with Great Britain has greatly increased. Exports to Great Britain, only 3.6 per cent. of the total in 1929, rose to 8.1 per cent in 1935, and were probably even higher in 1936; the percentage of imports increased from 2.8 per cent, in 1929 to 5.1 per cent in 1935. Of the structural changes in Hungary's trade the most important, the decrease in imports of manufactured goods and the increase in those of raw materials, have already been noted. There was a complementary change in the structure of exports; manufactured exports rose from 19.4 per cent of the total, on the average, in 1926-30, to 29.9 per cent in 1935; exports of food and drink fell from 52.2 per cent, to 44.9 per cent.

The increase in Hungary's foreign trade since 1933, and particularly in the export surplus, did not necessarily relieve the exchange position, since over three-quarters of Hungary's trade is conducted through clearing agreements, as the result of which a favorable balance cannot be converted into free exchange.¹

The

1. It must not be forgotten that the improvement shown by the actual figure of trade under the clearing agreements is often of an essentially artificial nature. For

'Damals sind sie gescheiter gewesen', said an old gentlemen to me in Fiume in 1934.

only country whose trade with Hungary yields an appreciable export surplus of free exchange is now Great Britain.¹ The depreciation of the pengö since 1931 is a further factor which should be borne in mind in considering Hungary's foreign trade. Since December 1935 this depreciation has been officially recognized by the authorities to the extent of 331 per cent., for the National Bank now pays a premium of 50 per cent for free currencies such as sterling and the dollar, though, in order to avoid the consequent increase in the payments of pengö required by the foreign debt, the pengö has not been formally devalued by 33½ per cent.

The exchange position, nevertheless, undeniably improved after 1931. The exchange restrictions were considerably simplified, although not relaxed, and the gold and foreign exchange holding of the National Bank (valued at the old parity rate of the pengö) rose from 90.2 million pengö on June 30th, 1934, to 126 million pengö on December 31st, 1936.² Moreover, the increasing tourist trade has brought in substantial sums in foreign exchange. The foreign debt has decreased considerably, owing, largely to the devaluation or depreciation of nearly all the currencies in which the debt is expressed, and also to the willingness of foreign creditors to take repayment at a loss by selling their pengö cheap to Hungarian exporters and foreign tourists. Thus the foreign funded debt of the State fell from 1,315 million pengö at the end of June 1931 to 800 million pengö at the end of December 1936.³ Similarly, the debts subject to the standstill agreement on Hungary's short-term debts to foreign banks were only about 320 million pengö⁴ in the middle of June 1936 (before the devaluations of September 1936), though the figure must have been at least twice as high in June 1931.⁵

Yet up to the time of writing the arrangements arrived at in the winter of 1931—2 for dealing with the foreign debt have remained

example, if Germany were to return to a free exchange system it is doubtful whether she could continue to take such large quantities of Hungary's exports; and the fact that Italy is importing large quantities of Hungarian goods (at artificially high prices) is due chiefly to political considerations. A further problem arising out of trade through the clearing agreements is that there is often great difficulty in providing suitable imports into Hungary, e.g. in return for exports to Germany.

1. The balance in favor of Hungary has increased from £ 171,000 in 1930 to £1,739,000 in 1936.

2. This was partly due to the purchase during 1935 of gold in the hands of the public.

3. Special Report of the Financial Committee to the Council of the League, October 1931, p. 5; Mr. Royall Tyler's 21st report (fourth quarter of 1936), p.6.

4. Mr. Royall Tyler's 19th report (second quarter of 1936), p. 14.

5. Cf. Special Report of the Financial Committee to the Council of the League, October 1931, p. 20.

in force without any material change. On all the long- and short-term debts, other than the League loan of 1924, little or no interest has been transferred since 1932 and amortization has been entirely suspended. This position is not primarily due to the current budgetary situation of the State. In 1936, for example, there was a noteworthy increase in revenue, and the relation of revenue to expenditure was more favorable than it had been for several years past, though it is true that, owing to the suspension of transfer and to various other factors, the floating debt has increased from 402 to 720 million pengö between the end of September 1931 and of June 1936.¹ Similarly the position of other borrowers has noticeably improved; farmers have done better, industrial concerns have increased their profits; the banking position has benefited; and there has been no major failure since 1929.

So far as Hungary was concerned, the three principal manifestations of the crisis of 1931 were the restrictions imposed on her chief markets, the fall of prices, and the impossibility of a further recourse to foreign capital. By the beginning of 1937 it might reasonably be said that Hungary had made some progress towards adjusting herself to these new conditions. But it is the opinion of Mr. Royall Tyler that the recent figures 'must be taken to represent more or less what Hungary, in present circumstances, can make out of foreign trade, the actual amount of exports year by year, of course, depending much on the harvest. Unless markets are reopened, it appears unlikely that she will be able greatly to increase her sales abroad or her export surplus.'² Thus certain very definite limits are set to the extent of recovery. Inside these limits there were signs in the early part of 1937 that recovery had progressed nearly as far as it could. Further progress would seem to be dependent upon a restoration of the world conditions which prevailed before 1931; and it may be added that such progress will inevitably require further imports of foreign capital.

In the light of subsequent events it is difficult to avoid the conclusion that the equilibrium apparently achieved in the economic system between 1924 and 1930 was due to the large volume of foreign capital entering the country in those years. But it is most important to remember the assumptions on which this money was lent. Of these the most weighty was that no fundamental alterations would take place in the structure of Hungary's foreign trade, particularly with the Successor States. This assumption was by

1. The State pays part of the service of the foreign debt in pengö which it then reborrows. The steady increase in the floating debt which results is, of course, a real weakness.

2. 21st report (fourth quarter of 1936), p. II.

¹'Damals sind sie gescheiter gewesen', said an old gentlemen to me in Fiume in 1934.

no means unjustifiable. For even in 1930, as was seen, Hungary was still to some extent fulfilling her old function of exporting agricultural produce in exchange for the raw materials of the provinces she lost after the War, and if this position had not changed, Hungary's capacity to pay would now be materially different from what it is. The other important assumption relates to the level of prices, for clearly it was unjustifiable for Hungary to borrow abroad on such a scale if the prices of her chief exports were not to remain at or about the level at which they stood during the borrowing years. On these suppositions it might reasonably have been maintained that Hungary's foreign borrowing during these years was merely a preliminary transaction necessary to set the economic system on its feet until such time as Hungary had accumulated sufficient working capital of her own.

These assumptions have, however, been proved false. There has, after all, been a fundamental change in the structure of Hungary's trade. Moreover, the progress of agricultural production in Czechoslovakia and Austria, and, to a lesser degree, of industrialization in Rumania and Yugoslavia, suggest that the change is permanent, and that the old position, even as it was before 1930, will in the present circumstances be most difficult to recover. For this reason, if prices rise to the level of 1929, the effect on Hungary's economic system will be far less than would otherwise have been the case. It is not suggested that for these reasons Hungary's foreign debt will never be repaid; on the contrary, as was seen above, the position of the foreign creditor was probably more favorable in the early part of 1937 than it had been since 1931. What is suggested is that the foreign borrowings of 1924—30 did not, as it was hoped at the time, provide a permanent solution for the difficulties imposed on Hungary by the Peace Treaty, but merely enabled their solution to be postponed.

In the meantime, however, those difficulties have been increased, as was seen, through the restrictions on Hungarian foreign trade which have since been imposed by the Successor States. So far this is an ample justification for the policy of industrialization at present being pursued. But even now Hungary is, in certain cases, manufacturing more industrial products than she can herself consume. As industrialization is extended, this surplus will increase, and will be limited only by Hungary's lack of raw materials. Thus it may be anticipated that in addition to marketing her agricultural surplus, the difficulty of which is more likely to increase than to decrease, Hungary may shortly be faced with the problem of finding foreign buyers for a growing surplus of manufactured goods as well, since an increase in industrial production will not

diminish the necessity to export, owing to the need to import industrial raw materials. It cannot be denied that these difficulties arise directly or indirectly from the Peace Treaty, in so far as it enabled Hungary's peripheral provinces to be included in the separate tariff areas of the Successor States. The questions so raised have yet to be answered. It is in answering them that Hungary's fundamental economic problem consists.

NOTE

Since the above section was written, Hungary has attempted to reach a comprehensive settlement of the foreign debt question with her foreign creditors, and agreement was reached in July 1937 as to the future service on many of the more important categories of Hungary's foreign debt. In each case provision was made for a resumption of payments in foreign exchange, whereas up to this stage Hungary had paid in pengö for all except the League Loan; and the settlements were for a period of at least three years, instead of being on a year-to-year basis, as had hitherto been the case. With regard to the 7½ per cent. League Loan, a proposal was put forward for a permanent settlement, viz, that the interest payable should be 4½ per cent., in place of the 3¾ per cent paid since 1932, and that the loan should be redeemed by the operation of an annual sinking fund of 1 per cent. This proposal the bondholders' representatives recommended the bondholders to accept. On an issue of Hungarian Treasury bills, of which £ 1,770,000 were outstanding, mostly in London, the Government offered to pay 3 per cent. in sterling during the next three years (half in interest and half in redemption), as compared with a payment of only 1½ per cent interest in pengö in the preceding year. A further offer was made in respect of the long-term bonded debt other than that of the State, which chiefly covers the debt of the municipalities, ecclesiastical bodies, and certain private bodies. On this class of debt between 1½ per cent and 1¾ per cent. is to be paid in foreign exchange during the next three years in interest, although since 1931 no interest or amortization had been paid in foreign exchange at all. Finally, a new standstill agreement was initiated by the short-term banking creditors providing for payment in foreign exchange, instead of in pengö as hitherto. The agreement is to remain in force conditionally for three years; 1 per cent. is to be paid in interest and 4½ per cent. in capital repayment per annum. At the time of writing, negotiations are in progress with regard to the State long-term foreign debts.